

**CITY OF FILLMORE, UTAH  
INDEPENDENT AUDITORS' REPORT  
BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

**CITY OF FILLMORE, UTAH  
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YEAR ENDED JUNE 30, 2005**

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LARSON & PETERSON  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

July 29, 2005

Honorable Mayor  
Members of the City Council  
City of Fillmore, Utah

Mayor and Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fillmore City, as of and for the year ended June 30, 2005, which collectively comprise Fillmore City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fillmore City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fillmore City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages MDA-1 through MDA-12 and 38 through 39 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 29, 2005, on our consideration of Fillmore City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fillmore City's basic financial statements. The combining nonmajor fund financial statements are presented for purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Larson & Peterson  
Certified Public Accountants

**RE: Management's Discussion and Analysis (MD&A) of the Financial Audit**

The following report contains the financial results for the current fiscal year ended June 30, 2005. The annual independent audit report as performed by Larson and Peterson is included as a part of this annual report.

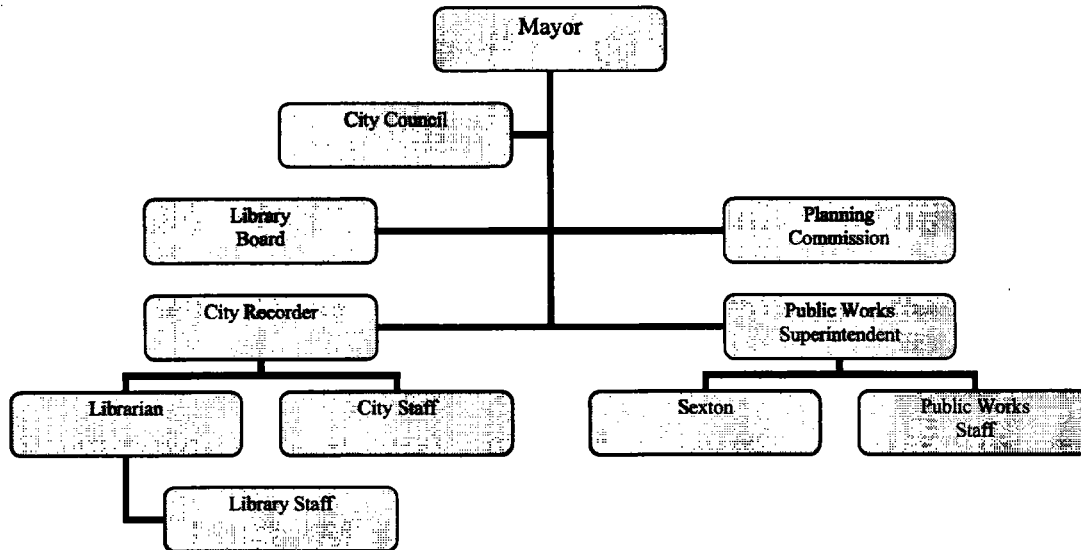
The report contains the critical financial information regarding the City's activities over the past year. Responsibility for the accuracy of the data and the completeness of the report, including all disclosures, rests with the City.

The Management Discussion & Analysis will consist of the following topics:

- A brief discussion of the basic financial statements in Financial Highlights
- Condensed financial information comparing the current year to the prior year
- An analysis of the overall financial position to assist users in assessing whether the City's financial position has improved or deteriorated as a result of the year's operations
- An analysis of the balances and transactions of individual proprietary funds
- An analysis of significant variations between original and final budget amounts for the general fund
- A description of significant capital improvement activity during the year
- A discussion to report infrastructure assets
- A description of known facts expected to have a significant effect on the financial position of the city

Readers are encouraged to consider the information presented in the MD&A in conjunction with the financial statements which follow this section.

## FILLMORE CITY ORGANIZATION CHART



### FINANCIAL HIGHLIGHTS

- The total net assets of Fillmore City increased \$1,056,946 (5.07%) to \$21,908,961. The governmental net assets of Fillmore City increased by \$191,791 (2.01%) from \$9,930,876 to \$10,130,667 and business-type activity net assets increased \$857,155 (7.85%) from \$10,921,139 to \$11,778,294.
- The total net assets of \$21,908,961 include \$13,769,816 in capital assets, net of related debt. The remaining \$7,544,706 in other net assets is comprised of Class C Road funds, unrestricted funds, cemetery funds, emergency funds, and funds for bonding requirements.
- Total long-term liabilities of Fillmore City equal \$479,125, which are bonds incurred for an upgrade of the water system in 1986 and 1994. Total bonds outstanding decreased by \$73,875 with bond principal payments in fiscal year 2005.
- At the end of the current fiscal year, undesignated fund balance in the General Fund (the primary operating fund of Fillmore City) was \$250,434 or 17.24% of budgeted revenue for the 2006 fiscal year.

### FINANCIAL STATEMENT OVERVIEW OF THE CITY AS A WHOLE

The MD&A is intended to serve as an introduction on the basic financial statements for Fillmore City. The basic financial statements are comprised of three parts: 1) government-wide financial statements, 2) fund financial statements,

and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

**Government-wide financial statement.** The government-wide financial statements are designed to provide readers with a broad overview of Fillmore City finances in a format similar to a private sector business.

**The Statement of Net Assets** reports all city assets and liabilities, with the difference between the two reported as net assets. Yearly comparisons will serve as an indicator on whether the city financial position is improving or deteriorating. However, non-financial factors will need to be considered in any comparison.

**The Statement of Activities** presents information showing how the net assets changed during the most recent fiscal year. Changes in net assets (fund balance) are reported as soon as the contributing event occurs.

Both of the government-wide financial statements, Statement of Net Assets & Statement of Activities, distinguish functions of the city that are primarily supported by taxes and intergovernmental revenues (governmental activities-what government does for citizens) from other functions that are intended to recover all or a major portion of their costs through user fees and charges (business-type activities). The governmental activities of Fillmore City include all general government to include parks, cemetery, streets, planning, airport, and library. The business-type activities of the City include the water, sewer, and electric proprietary funds.

## **REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

**Fund financial statements.** A fund is a group of related accounts that is used to maintain control over resources that have been separated for a specific objective or activity. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. The funds of Fillmore City are divided into two categories: governmental funds and proprietary funds.

**Governmental funds** are used to account for basically the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of the funds and balances left at fiscal year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The major governmental fund (as determined by generally accepted accounting principles) is the General Fund with the Redevelopment Agency and Capital Projects funds also reported under the governmental fund. The remaining

governmental funds are determined to be non-major and are included in the combining statements within this report.

Proprietary funds or enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. Fillmore City uses proprietary funds to account for the water, sewer, and electric departments. As determined by generally accepted accounting principles, the water, sewer, and electric proprietary funds meet the criteria for major fund classification.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As explained earlier, net assets may serve, over time, as a useful indicator of a government's financial position. As of June 30, 2005, Fillmore City assets exceeded liabilities by \$21,908,961. The largest portion of the City's net assets (\$13,769,816 or 61.30%) is invested in capital assets, less any related debt used to acquire those assets. Capital assets are used to provide services to citizens and are not available for future spending. The revenue required to repay capital asset debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the governmental and business-type activities.

### Fillmore City Net Assets

Table 1

|                            | Governmental Activities |                  | Business – type Activities |                   | Total             |                   |
|----------------------------|-------------------------|------------------|----------------------------|-------------------|-------------------|-------------------|
|                            | 2005                    | 2004             | 2005                       | 2004              | 2005              | 2004              |
| Current and other assets   | 1,111,491               | 1,040,274        | 7,209,774                  | 6,402,439         | 8,321,265         | 7,442,713         |
| Capital assets             | 9,041,056               | 8,917,392        | 5,101,035                  | 5,120,992         | 14,142,091        | 14,038,384        |
| Total assets               | <u>10,152,547</u>       | <u>9,957,666</u> | <u>12,310,809</u>          | <u>11,523,431</u> | <u>22,463,356</u> | <u>21,481,097</u> |
| Other liabilities          | 16,810                  | 22,328           | 4,650                      | 5,055             | 21,460            | 27,383            |
| Long-term liabilities      | 5,070                   | 4,462            | 3,501                      | 3,285             | 8,571             | 7,747             |
| Total liabilities          | <u>21,880</u>           | <u>26,790</u>    | <u>8,151</u>               | <u>8,340</u>      | <u>30,031</u>     | <u>35,130</u>     |
| Net assets:                |                         |                  |                            |                   |                   |                   |
| Invested in capital assets |                         |                  |                            |                   |                   |                   |
| net of related debt        | 9,041,056               | 8,917,392        | 4,728,760                  | 4,674,437         | 13,769,816        | 13,591,829        |
| Restricted                 | 442,855                 | 458,342          | 151,584                    | 169,324           | 594,439           | 627,666           |
| Unrestricted               | 646,756                 | 555,142          | 6,897,950                  | 6,077,378         | 7,544,706         | 6,632,520         |
| Total net assets           | <u>10,130,667</u>       | <u>9,930,876</u> | <u>11,778,294</u>          | <u>10,921,139</u> | <u>21,908,961</u> | <u>20,852,015</u> |

At the end of the current fiscal year Fillmore City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

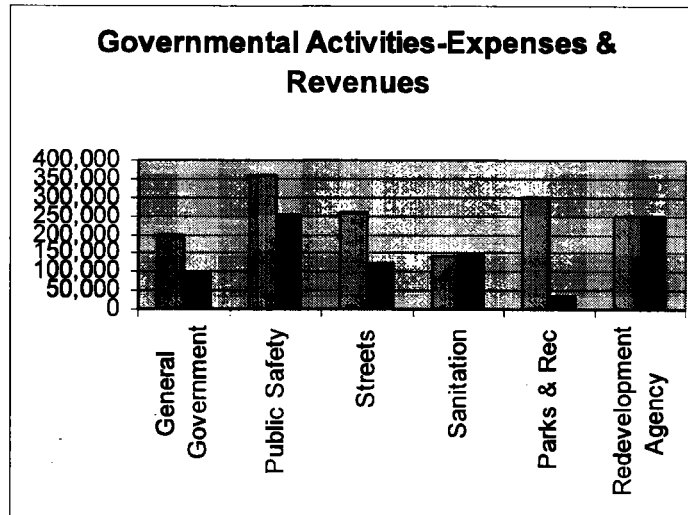


**Fillmore City Change in Net Assets**  
**Table 2**

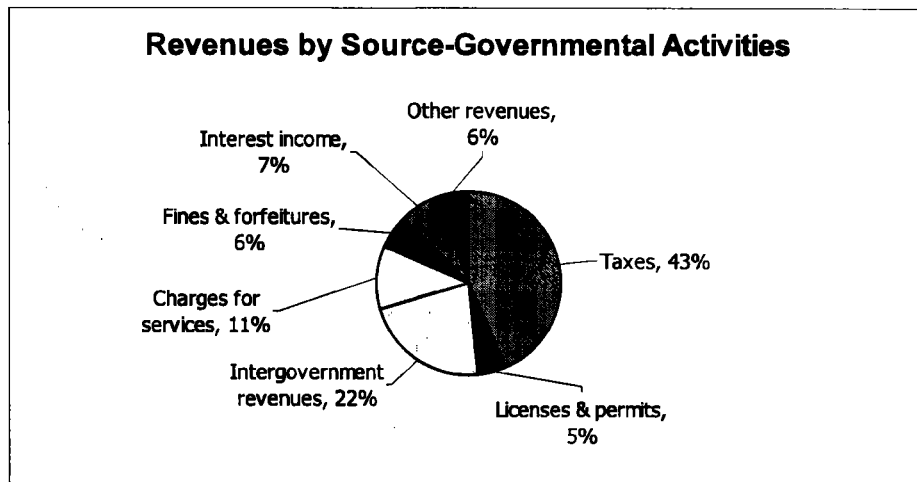
|   | Governmental Activities |              | Business-type Activities |               | Total         |               |
|---|-------------------------|--------------|--------------------------|---------------|---------------|---------------|
|   | 2005                    | 2004         | 2005                     | 2004          | 2005          | 2004          |
| <b>Revenues:</b>                        |                         |              |                          |               |               |               |
| Program revenues:                       |                         |              |                          |               |               |               |
| Charges for services                    | \$ 351,154              | \$ 308,135   | \$ 2,852,846             | \$ 2,913,943  | \$ 3,204,000  | \$ 3,222,078  |
| Operating grants and contribs           | 301,608                 | 200,781      | -                        | -             | 301,608       | 200,781       |
| Capital grants and contribs             | 11,437                  | 56,593       | 7,810                    | 4,260         | 19,247        | 60,853        |
| General revenues:                       |                         |              |                          |               |               |               |
| Property taxes                          | 421,861                 | 392,712      | -                        | -             | 421,861       | 392,712       |
| Other taxes                             | 465,909                 | 452,572      | -                        | -             | 465,909       | 452,572       |
| Unrestricted investment earnings        | 112,736                 | 65,458       | 68,246                   | 38,582        | 180,982       | 104,040       |
| Miscellaneous                           | 32,662                  | 29,016       | 17,156                   | 55,531        | 49,818        | 84,547        |
| Gain on Sale of Capital Assets          | -                       | 23,865       | -                        | -             | -             | 23,865        |
| Total revenues                          | 1,697,367               | 1,529,132    | 2,946,058                | 3,012,316     | 4,643,425     | 4,541,448     |
| <b>Expenses:</b>                        |                         |              |                          |               |               |               |
| General government                      | 190,751                 | 295,371      |                          |               | 190,751       | 295,371       |
| Public safety                           | 357,033                 | 196,464      |                          |               | 357,033       | 196,464       |
| Highways and pub. improvmts             | 258,799                 | 202,601      |                          |               | 258,799       | 202,601       |
| Sanitation                              | 142,447                 | 138,519      |                          |               | 142,447       | 138,519       |
| Parks and recreation                    | 298,447                 | 331,993      |                          |               | 298,447       | 331,993       |
| Community & Ec. Dev.                    | 250,099                 | 220,869      |                          |               | 250,099       | 220,869       |
| Operating Expenses (Business Type)      |                         |              | 2,079,198                | 2,071,293     | 2,079,198     | 2,071,293     |
| Interest Expense                        |                         |              | 9,705                    | 10,500        | 9,705         | 10,500        |
| Total expenses                          | 1,497,576               | 1,385,817    | 2,088,903                | 2,081,793     | 3,586,479     | 3,467,610     |
| Increase in net assets before transfers | 199,791                 | 143,315      | 857,155                  | 930,523       | 1,056,946     | 1,073,838     |
| Transfers                               | -                       | -            | -                        | -             | -             | -             |
| Increase in net assets                  | 199,791                 | 143,315      | 857,155                  | 930,523       | 1,056,946     | 1,073,838     |
| Net assets - beginning                  | 9,930,876               | 9,787,561    | 10,921,139               | 9,990,616     | 20,852,015    | 19,778,177    |
| Net assets - ending                     | \$ 10,130,667           | \$ 9,930,876 | \$ 11,778,294            | \$ 10,921,139 | \$ 21,908,961 | \$ 20,852,015 |

Fillmore City total revenues increased by \$101,977 (2.25%), while the total cost of all programs and services increased by 3.43% (\$118,869). Governmental activities increased the net assets of Fillmore City by \$199,791. When combined with the \$857,155 increase in net assets from business-type activities, overall net assets increased by \$1,056,946 or 5.07%.

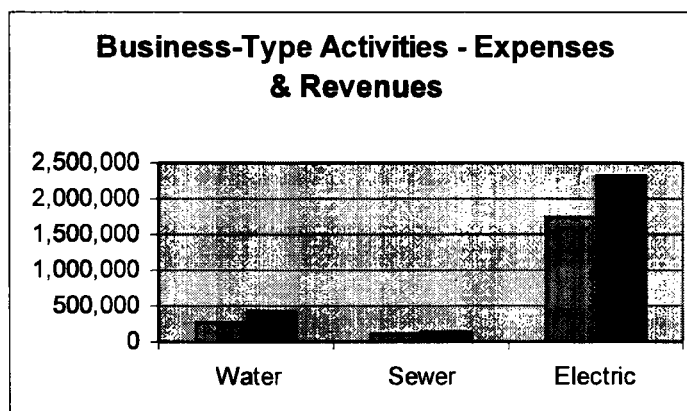
The graphs presented below contain the operating revenues and not the effects of special one-time items or transfers. Program revenues included in the first graph are fees charged for specific services performed by the various governmental functions.



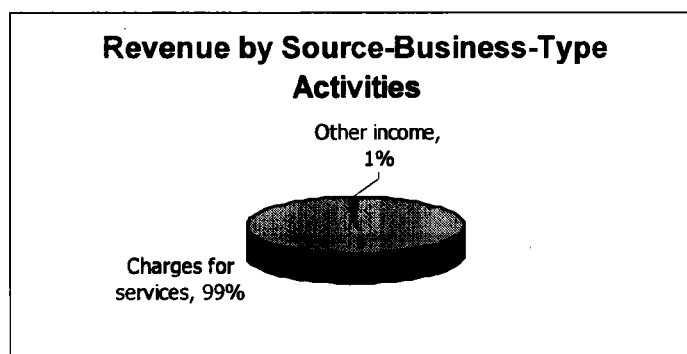
Note: Expenses are shown in the first column of the chart and revenue is shown in the second column.



The following graphs display the business-type activities for 2005. Program revenues are fees charged for water, sewer, and electric services, with a minimal amount of other income. Business-type activities increased the net assets of Fillmore City by \$857,155.



Note: Expenses are shown in the first column of the chart and revenue is shown in the second column.



## FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

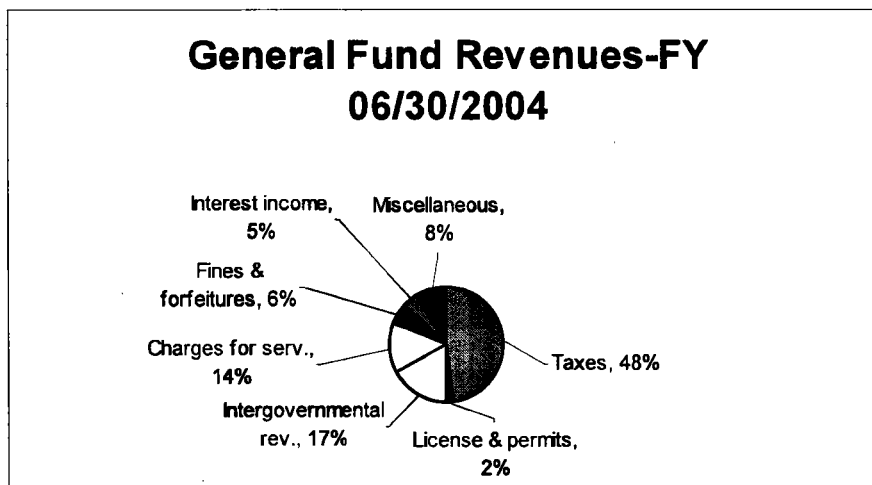
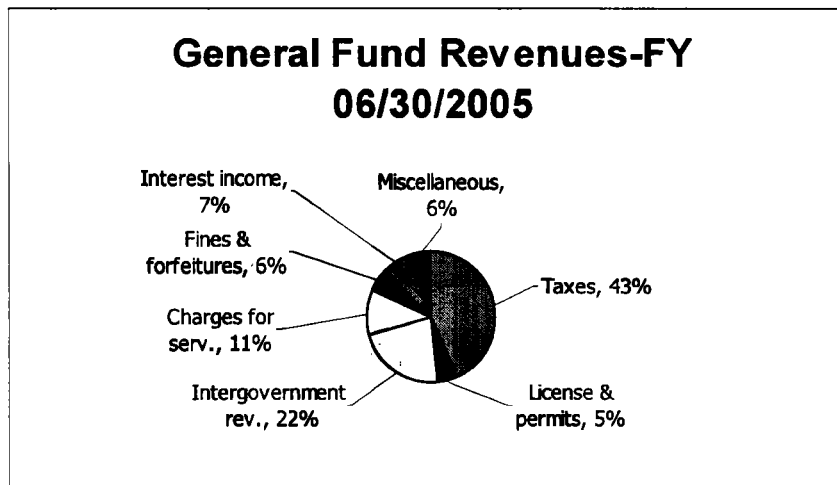
**Governmental Funds.** The focus of Fillmore City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. The unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

As of June 30, 2005, the governmental funds (General, RDA, and other funds) reported combined fund balances of \$10,130,667. This represents an increase of \$199,791 over last year's ending balances.

The General Fund is the main operating fund of the City. All activities, which are not required to be accounted for in separate funds, either by state or local ordinance or by a desire to maintain a matching of revenues and expenditures, are accounted for in this fund. An analysis of the total fund balance in the General Fund shows that it represents 17.24% of projected revenues for the new fiscal year, which ends June 30, 2006. State law allows for a maximum fund balance of 18%.

Taxes continue to be the largest source of revenue in the General Fund and represent 43.2% of total revenues. The majority of tax revenue is received from sales and use taxes, which represent 70.94% of total tax revenues and 22.77% of total General Fund revenues. This compares to 74.11% and 27.5% respectively for fiscal year 2004.

The following charts display General Fund revenues as a percent of total revenues for the past two fiscal years.



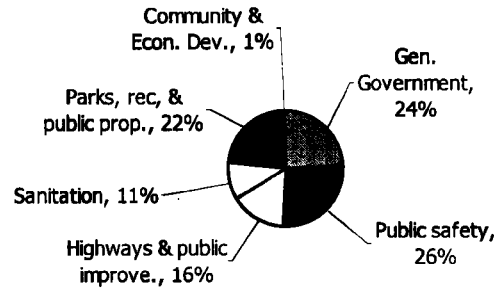
The Redevelopment Agency (RDA) of Fillmore has a total fund balance of \$37,524. The RDA has a loan that is payable to the General Fund for funds advanced when the RDA was formed in 2001. The remaining balance of this loan is \$150,988.

The following graphs display the expenditures in the General Fund by function for the past two fiscal years. As can be seen by reviewing these graphs, over the past two years spending in the various categories remains similar. The exceptions are:

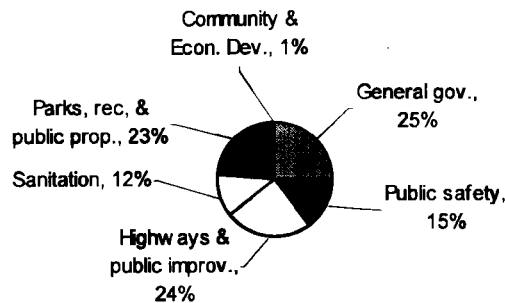
- Public Safety in fiscal year 2005 was higher due to a sizeable building permit fee paid to the commercial building inspector; and

- Highways and Public Improvements decreased the amount of funds spent because of the street sweeper that was purchased in the 2004 fiscal year.

### General Fund Expenses-FY 06/30/2005



### General Fund Expenses-FY 06/30/2004



**Proprietary funds.** The proprietary funds statements included in this report provide the same type of information found in the business-type activities as is provided in the government-wide financial statements. The difference, however, is the fund statements provide much more detail. Unrestricted net assets of the Water, Sewer, and Electric funds at the end of the fiscal year were \$246,697, \$446,291, and \$4,374,962 respectively. The total increase in net assets was \$160,895, \$62,100, and \$634,160 respectively.

The electric fund continues to make profits even though major upgrades are being made yearly to the electrical distribution system. The Water fund made a profit after adjusting water rates in June 2004. The department had limited capital purchases in this fiscal year.

## **General Fund Budgetary Highlights**

The final General Fund budget was amended \$178,761 higher than the original budget. The increased revenue was due to a substantial building permit fee, grant revenue, and increased revenue in the court system.

## **Capital Asset & Debt Administration**

**Capital assets** - Fillmore City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$14,142,091. (Net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, infrastructure (streets, sidewalks, etc.), machinery & equipment, library books, and the airport. No capital assets were disposed of in fiscal year 2005.

Capital expenditures during the current fiscal year included the following:

- \$5,450 for a new city Dell Server computer.
- \$4,700 for 12 new portable radios for Emergency Management.
- \$20,076 for the purchase of an equipment trailer for the Fire Department
- \$61,945 for a compressor & equipment for the trailer for the Fire Department.
- \$40,000 to purchase lights for the walking path at the North Park.
- \$19,810 for playground equipment at the North Park.
- \$50,216 for library books.
- \$11,746 for cemetery improvements to include the initial work on the new sprinkler system.
- \$40,000 for a sewer-cleaning trailer.
- \$9,487 for a well booster motor and coupling
- \$178,764 spent on upgrading the city electrical system.
- \$34,432 spent on installing and repairing city sidewalks.

**Long-term debt.** At year-end, Fillmore City had \$479,125 in outstanding long-term debt in business-type activities. This debt is in the Water Department proprietary fund and was for the construction of water lines and storage tanks in 1986 and 1994. The Water Department is currently providing all funding for the bonds' repayment.

### **FILLMORE CITY OUTSTANDING DEBT**

|                      | Business-type<br>Activities |
|----------------------|-----------------------------|
| <b>Bonds Payable</b> |                             |
| 1986 loan (0.0%)     | \$ 70,125.                  |
| 1994 loan (3.0%)     | 211,000.                    |
| 1994 loan (1.5%)     | <u>198,000.</u>             |
| <b>Total</b>         | <b>\$ 479,125.</b>          |

## **Economic Factors and Next Year's Budgets and Rates**

The City reviews economic forecasts and also performs its own management analysis in the process of developing the one-year operating and capital budgets of Fillmore City. Monthly reports are distributed to the City Council and provide both budget and actual information for tracking the financial activities of the City during the fiscal year. Following are some of the factors locally:

- The current unemployment rate in Millard County (Fillmore is the second largest city) for the month of August 2005 is 5.5% compared with 5.4% in August 2004. This is higher than the average for Utah as a whole, which is at 4.4% for August 2005 and the current national rate of 4.9%. There was minimal new job growth and a number of temporary jobs were lost in Millard County this year.
- There were 7 building permits issued for new home construction in fiscal year 2005.
- Sales tax revenue remains constant due to nearly flat overall economic factors.
- Proprietary fund user rates will remain constant in the water, sewer, and electric funds. No rate increases are foreseen in any of these funds.
- The 2006 fiscal year budget assumed that interest rates on investments would begin to increase due to the Federal Reserve increasing short-term interest rates.
- The Fillmore City budget for fiscal year 2006 includes continuing the installation of an automated sprinkler system at the cemetery, building a new entrance gate at the cemetery, purchasing a used pick-up truck, electrical system upgrades, North Park walking path and lights, minimal system upgrades in the water department, and emergency management expenditures.
- The 2006 fiscal year budget shows a 4.8% increase over the 2005 fiscal year budget. The largest portion of this increase, 3.1%, is due to the landfill fee increase by Millard County. Benefits continue to have an impact on the budget, as health insurance premiums increase yearly.
- The impact that the recent hurricanes in the Gulf Coast will have on this area are unforeseen now. This will definitely affect the cost of gasoline as well as gas rates for heating costs.

### **Requests for Information**

This financial report is designed to provide a general overview of Fillmore City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Jacqueline Hart  
City Recorder  
Fillmore City  
75 W. Center St.  
Fillmore, UT 84631  
435-743-5233



## **BASIC FINANCIAL STATEMENTS**

**Fillmore City**  
**Statement of Net Assets**  
**June 30, 2005**

|   | Primary Government         |                             |                      |
|---|----------------------------|-----------------------------|----------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Totals               |
| <b>ASSETS</b>                                     |                            |                             |                      |
| Cash and cash equivalents                         | \$ 433,648                 | \$ 6,770,483                | \$ 7,204,131         |
| Receivables (net of allowance of \$3,500)         |                            |                             |                      |
| Utility Billings                                  | 13,716                     | 253,696                     | 267,412              |
| Other   | 24,052                     | -                           | 24,052               |
| Inventory   | 2,000                      | -                           | 2,000                |
| Restricted Assets:                                |                            |                             |                      |
| Cash and cash equivalents                         | 638,075                    | 185,595                     | 823,670              |
| Capital assets (net of accumulated depreciation): |                            |                             |                      |
| Land  | 150,757                    | 133,089                     | 283,846              |
| Buildings   | 239,885                    | 4,102                       | 243,987              |
| Improvements other than buildings                 | 337,934                    | 4,871,878                   | 5,209,812            |
| Equipment   | 361,090                    | 91,966                      | 453,056              |
| Airport   | 232,960                    | -                           | -                    |
| Sidewalks and streets                             | 647,101                    | -                           | -                    |
| Infrastructure                                    | 7,071,329                  | -                           | -                    |
| Total assets                                      | <u>10,152,547</u>          | <u>12,310,809</u>           | <u>14,511,966</u>    |
| <b>LIABILITIES</b>                                |                            |                             |                      |
| Accounts payable                                  | 16,810                     | -                           | 16,810               |
| Accrued interest payable                          | -                          | 4,650                       | 4,650                |
| Compensated absences                              | 5,070                      | 3,501                       | 8,571                |
| Sales tax payable                                 | -                          | 11,228                      | 11,228               |
| Noncurrent Liabilities:                           |                            |                             |                      |
| Due within one year                               | -                          | 72,000                      | 72,000               |
| Due in more than one year                         | -                          | 407,125                     | 407,125              |
| Customer deposits payable                         | -                          | 34,011                      | 34,011               |
| Total liabilities                                 | <u>21,880</u>              | <u>532,515</u>              | <u>554,395</u>       |
| <b>NET ASSETS</b>                                 |                            |                             |                      |
| Invested in capital assets, net of related debt   | 9,041,056                  | 4,728,760                   | 13,769,816           |
| Restricted for:                                   |                            |                             |                      |
| Class "C" roads                                   | 72,499                     | -                           | 72,499               |
| Cemetery  | 370,356                    | -                           | 370,356              |
| Bond requirements                                 | -                          | 111,500                     | 111,500              |
| Emergency repairs                                 | -                          | 40,084                      | 40,084               |
| Unrestricted                                      | 646,756                    | 6,909,005                   | 7,555,761            |
| Total net assets                                  | <u>\$ 10,130,667</u>       | <u>\$ 11,789,349</u>        | <u>\$ 21,920,016</u> |

**Fillmore City**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**

| Function/Programs                           | Program Revenues |                      |                          | Net (Expense) Revenue and Changes in Net Assets |                          |                      |
|---|------------------|----------------------|--------------------------|---|--------------------------|----------------------|
|   | Expenses         | Operating            |                          | Governmental Activities                         | Primary Government       |                      |
|   |                  | Charges for Services | Grants and Contributions |   | Business-type Activities | Total                |
| <b>Primary government:</b>                  |                  |                      |                          |   |                          |                      |
| <b>Governmental activities:</b>             |                  |                      |                          |   |                          |                      |
| General government                          | \$ 190,751       | \$ 88,581            | \$ 8,046                 | \$ (94,124)                                     | \$ -                     | \$ (94,124)          |
| Public safety                               | 357,033          | 83,633               | 168,423                  | (104,977)                                       | -                        | (104,977)            |
| Highways and public improvements            | 258,799          | -                    | 121,948                  | (136,851)                                       | -                        | (136,851)            |
| Sanitation                                  | 142,447          | 148,658              | -                        | 6,211   | -                        | 6,211                |
| Parks, recreation, and public property      | 298,447          | 30,282               | 3,191                    | (253,537)                                       | -                        | (253,537)            |
| Community and economic development          | 250,099          | -                    | -                        | (250,099)                                       | -                        | (250,099)            |
| <b>Total governmental activities</b>        | <b>1,497,576</b> | <b>351,154</b>       | <b>301,608</b>           | <b>(833,377)</b>                                |                          | <b>(833,377)</b>     |
| <b>Business-type activities:</b>            |                  |                      |                          |   |                          |                      |
| Water                                       | 264,254          | 404,067              | -                        | -   | 147,623                  | 147,623              |
| Sewer                                       | 93,814           | 144,729              | -                        | -   | 50,915                   | 50,915               |
| Electric                                    | 1,719,780        | 2,304,050            | -                        | -   | 584,270                  | 584,270              |
| <b>Total business-type activities</b>       | <b>2,077,848</b> | <b>-</b>             | <b>-</b>                 | <b>-</b>  | <b>782,808</b>           | <b>782,808</b>       |
| <b>Total primary government</b>             | <b>3,575,424</b> | <b>351,154</b>       | <b>301,608</b>           | <b>(833,377)</b>                                | <b>782,808</b>           | <b>(50,569)</b>      |
| <b>General revenues:</b>                    |                  |                      |                          |   |                          |                      |
| Property taxes                              |                  |                      |                          | 421,861   | -                        | 421,861              |
| Sales taxes                                 |                  |                      |                          | 465,909   | -                        | 465,909              |
| Unrestricted investment earnings            |                  |                      |                          | 112,736   | 68,246                   | 180,982              |
| Miscellaneous                               |                  |                      |                          | 32,662  | 17,156                   | 49,818               |
| <b>Total general revenues and transfers</b> |                  |                      |                          | <b>1,033,168</b>                                | <b>85,402</b>            | <b>1,118,570</b>     |
| Change in net assets                        |                  |                      |                          | 199,791   | 868,210                  | 1,068,001            |
| <b>Net assets - beginning</b>               |                  |                      |                          | <b>9,930,876</b>                                | <b>10,921,139</b>        | <b>20,852,015</b>    |
| <b>Net assets - ending</b>                  |                  |                      |                          | <b>\$ 10,130,667</b>                            | <b>\$ 11,789,349</b>     | <b>\$ 21,920,016</b> |

The Notes to the Financial Statements are an Integral Part of this Statement.

**Fillmore City  
Balance Sheet  
Governmental Funds  
For the Year Ended June 30, 2005**

|  | General<br>Fund   | Special<br>Revenue | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|--------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                              |                   |                    |                                |                                |
| Cash and cash equivalents                  | \$ 88,488         | \$ -               | \$ 345,160                     | \$ 433,648                     |
| Receivables (net of allowance of \$3,500): |                   |                    |                                |                                |
| Utility billings                           | 13,716            | -                  | -                              | 13,716                         |
| Other                                      | 24,052            | -                  | -                              | 24,052                         |
| Due from other funds                       | 150,988           | -                  | -                              | 150,988                        |
| Inventory                                  | 2,000             | -                  | -                              | 2,000                          |
| Restricted assets:                         |                   |                    |                                |                                |
| Cash and cash equivalents                  | 79,207            | 188,512            | 370,356                        | 638,075                        |
| Total assets                               | <u>\$ 358,451</u> | <u>188,512</u>     | <u>715,516</u>                 | <u>1,262,479</u>               |
| <b>LIABILITIES AND FUND BALANCES</b>       |                   |                    |                                |                                |
| Liabilities:                               |                   |                    |                                |                                |
| Accounts payable                           | \$ 16,810         | \$ -               | \$ -                           | \$ 16,810                      |
| Due to other funds                         | -                 | 150,988            | -                              | 150,988                        |
| Total liabilities                          | <u>16,810</u>     | <u>150,988</u>     | <u>-</u>                       | <u>167,798</u>                 |
| Fund balances:                             |                   |                    |                                |                                |
| Reserved for:                              |                   |                    |                                |                                |
| Class "C" roads                            | 72,499            | -                  | -                              | 72,499                         |
| Fire department                            | 6,708             | -                  | -                              | 6,708                          |
| Endowments                                 | -                 | -                  | 240,670                        | 240,670                        |
| Cemetery operations                        | -                 | -                  | 129,686                        | 129,686                        |
| Inventory                                  | 2,000             | -                  | -                              | 2,000                          |
| Redevelopment                              | -                 | 37,524             | -                              | 37,524                         |
| Designated for:                            |                   |                    |                                |                                |
| Capital projects                           | -                 | -                  | 345,160                        | 345,160                        |
| Unemployment claims                        | 10,000            | -                  | -                              | 10,000                         |
| Undesignated                               | 250,434           | -                  | -                              | 250,434                        |
| Total fund balances                        | <u>341,641</u>    | <u>37,524</u>      | <u>715,516</u>                 | <u>1,094,681</u>               |
| Total liabilities and fund balances        | <u>\$ 358,451</u> | <u>\$ 188,512</u>  | <u>\$ 715,516</u>              | <u>\$ 1,262,479</u>            |

**Fillmore City**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2005**

|  |                      |
|--|----------------------|
| Total fund balances - governmental fund types:   | \$ 1,094,681         |
| Amounts reported for governmental activities in the statement of net assets are different because:   |                      |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.                  | 9,041,056            |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | <u>(5,070)</u>       |
| Net assets of government activities  | <u>\$ 10,130,667</u> |

**Fillmore City**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

|  | General<br>Fund   | Special<br>Revenue | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|--------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>  |                   |                    |                                |                                |
| Taxes  | \$ 596,691        | \$ 291,079         | \$ -                           | \$ 887,770                     |
| Licenses and permits   | 70,395            | -                  | -                              | 70,395                         |
| Intergovernmental revenues   | 302,372           | -                  | -                              | 302,372                        |
| Charges for services   | 156,951           | -                  | 7,025                          | 163,976                        |
| Fines and forfeitures  | 83,633            | -                  | -                              | 83,633                         |
| Interest income  | 95,891            | 3,433              | 13,412                         | 112,736                        |
| Miscellaneous  | 76,485            | -                  | -                              | 76,485                         |
| Total revenues   | <u>1,382,418</u>  | <u>294,512</u>     | <u>20,437</u>                  | <u>1,697,367</u>               |
| <b>EXPENDITURES</b>  |                   |                    |                                |                                |
| Current:   |                   |                    |                                |                                |
| General government   | 329,017           | -                  | -                              | 329,017                        |
| Public safety  | 349,898           | -                  | -                              | 349,898                        |
| Highways and public improvements   | 208,534           | -                  | -                              | 208,534                        |
| Sanitation   | 142,447           | -                  | -                              | 142,447                        |
| Parks, recreation, and public property   | 301,999           | -                  | -                              | 301,999                        |
| Community and economic development   | 17,235            | 232,864            | -                              | 250,099                        |
| Capital outlay   | -                 | -                  | 38,638                         | 38,638                         |
| Total expenditures   | <u>1,349,130</u>  | <u>232,864</u>     | <u>38,638</u>                  | <u>1,620,632</u>               |
| Excess revenues over (under)<br>expenditures                                     | <u>33,288</u>     | <u>61,648</u>      | <u>(18,201)</u>                | <u>76,735</u>                  |
| <b>Other financing sources (uses)</b>  |                   |                    |                                |                                |
| Transfers in   | -                 | -                  | 40,000                         | 40,000                         |
| Transfers out  | (40,000)          | -                  | -                              | (40,000)                       |
| Total other financing sources and uses   | <u>(40,000)</u>   | <u>-</u>           | <u>40,000</u>                  | <u>-</u>                       |
| Excess of revenues and other sources<br>over (under) expenditures and other uses | (6,712)           | 61,648             | 21,799                         | 76,735                         |
| Fund balances - beginning of year  | 348,353           | (24,124)           | 693,717                        | 1,017,946                      |
| Fund balances - end of year  | <u>\$ 341,641</u> | <u>\$ 37,524</u>   | <u>\$ 715,516</u>              | <u>\$ 1,094,681</u>            |

**Fillmore City**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2005**

Amounts reported for governmental activities in the statement of activities are different because:

|   |           |
|---|-----------|
| Net changes in fund balances - total governmental funds | \$ 76,735 |
|---|-----------|

|   |         |
|---|---------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | 123,664 |
|---|---------|

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

|                      |       |
|----------------------|-------|
| Compensated Absences | (608) |
|----------------------|-------|

|   |                   |
|---|-------------------|
| Change in net assets of governmental activities | <u>\$ 199,791</u> |
|---|-------------------|

**Fillmore City**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2005**

|  | Budgeted Amounts |            | Actual<br>Amounts | Variance<br>with Final<br>Budget<br>Over(Under) |
|--|------------------|------------|-------------------|---|
|  | Original         | Final      |                   |   |
| <b>REVENUES</b>  |                  |            |                   |   |
| Taxes  | \$ 566,100       | 561,600    | 596,691           | 35,091  |
| Licenses and permits   | 25,300           | 46,300     | 70,395            | 24,095  |
| Intergovernmental revenues   | 202,500          | 331,061    | 302,372           | (28,689)  |
| Charges for services   | 174,750          | 166,400    | 156,951           | (9,449)   |
| Fines and forfeitures  | 60,850           | 82,450     | 83,633            | 1,183   |
| Interest income  | 55,000           | 62,600     | 95,891            | 33,291  |
| Miscellaneous  | 62,090           | 74,940     | 76,485            | 1,545   |
| Total revenues   | 1,146,590        | 1,325,351  | 1,382,418         | 57,067  |
| <b>EXPENDITURES</b>  |                  |            |                   |   |
| Current:   |                  |            |                   |   |
| General government   | 354,190          | 368,890    | 329,017           | (39,873)  |
| Public safety  | 225,240          | 389,451    | 349,898           | (39,553)  |
| Highways and public improvements   | 244,900          | 237,500    | 208,534           | (28,966)  |
| Sanitation   | 153,925          | 153,925    | 142,447           | (11,478)  |
| Parks, recreation, and public property   | 392,975          | 396,275    | 301,999           | (94,276)  |
| Community and economic development   | 14,760           | 18,710     | 17,235            | (1,475)   |
| Total expenditures   | 1,385,990        | 1,564,751  | 1,349,130         | (215,621)                                       |
| Excess revenues over (under)<br>expenditures                                     | (239,400)        | (239,400)  | 33,288            | 272,688   |
| <b>Other financing sources (uses)</b>  |                  |            |                   |   |
| Transfers In   | 203,000          | 203,000    | -                 | (203,000)                                       |
| Transfers out  | -                | -          | (40,000)          | -   |
| Total other financing sources and uses   | 203,000          | 203,000    | (40,000)          | (203,000)                                       |
| Excess of revenues and other sources<br>over (under) expenditures and other uses | (36,400)         | (36,400)   | (6,712)           | 69,688  |
| Fund balances - beginning of year  | 348,353          | 348,353    | 348,353           |   |
| Fund balances - end of year  | \$ 311,953       | \$ 311,953 | \$ 341,641        | \$ 69,688                                       |



**Fillmore City**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Special Revenue Fund (Redevelopment Agency Fund)**  
**For the Year Ended June 30, 2005**

|  | Budgeted Amounts   |                    | Actual<br>Amounts | Variance<br>with Final<br>Budget<br>Over(Under) |
|--|--------------------|--------------------|-------------------|---|
|  | Original           | Final              |                   |   |
| <b>REVENUES</b>                              |                    |                    |                   |   |
| Taxes  | \$ 279,804         | \$ 279,804         | \$ 291,079        | \$ 11,275                                       |
| Interest Income                              | 150                | 150                | 3,433             | 3,283   |
| Total revenues                               | <u>279,954</u>     | <u>279,954</u>     | <u>294,512</u>    | <u>14,558</u>                                   |
| <b>EXPENDITURES</b>                          |                    |                    |                   |   |
| Current:                                     |                    |                    |                   |   |
| Community and economic development           | 279,954            | 279,954            | 232,864           | (47,090)  |
| Total expenditures                           | <u>279,954</u>     | <u>279,954</u>     | <u>232,864</u>    | <u>(47,090)</u>                                 |
| Excess revenues over (under)<br>expenditures | <u>-</u>           | <u>-</u>           | <u>61,648</u>     | <u>61,648</u>                                   |
| Net Change in fund balance                   | -                  | -                  | 61,648            | 61,648  |
| Fund balances - beginning of year            | (24,124)           | (24,124)           | (24,124)          |   |
| Fund balances - end of year                  | <u>\$ (24,124)</u> | <u>\$ (24,124)</u> | <u>\$ 37,524</u>  | <u>\$ 61,648</u>                                |

**Fillmore City**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2005**

|   | <u>Business-Type Activities - Enterprise Funds</u> |                     |                     |                      |
|---|--|---------------------|---------------------|----------------------|
|   | <u>Water</u>                                       | <u>Sewer</u>        | <u>Electric</u>     | <u>Total</u>         |
| <b>ASSETS</b>                                   |  |                     |                     |                      |
| Current assets:                                 |  |                     |                     |                      |
| Cash and cash equivalents                       | \$ 520,489   | \$ 446,236          | \$ 5,803,758        | \$ 6,770,483         |
| Restricted cash and cash equivalents            | 151,584  | -                   | 34,011              | 185,595              |
| Receivables:                                    |  |                     |                     |                      |
| Utilities (net of allowance of \$3,500)         | 49,317   | 11,664              | 192,715             | 253,696              |
| Total current assets                            | <u>721,390</u>                                     | <u>457,900</u>      | <u>6,030,484</u>    | <u>7,209,774</u>     |
| Noncurrent assets:                              |  |                     |                     |                      |
| Land  | 122,240  | 3,924               | 6,925               | 133,089              |
| Equipment, buildings and improvements           | 3,786,116  | 1,660,596           | 4,098,349           | 9,545,061            |
| Less: Accumulated depreciation                  | (1,832,819)  | (763,304)           | (1,980,992)         | (4,577,115)          |
| Total noncurrent assets                         | <u>2,075,537</u>                                   | <u>901,216</u>      | <u>-</u>            | <u>-</u>             |
| Total assets                                    | <u>\$ 2,796,927</u>                                | <u>1,359,116</u>    | <u>-</u>            | <u>-</u>             |
| <b>LIABILITIES</b>                              |  |                     |                     |                      |
| Current liabilities:                            |  |                     |                     |                      |
| Accrued interest payable                        | \$ 4,650   | \$ -                | \$ -                | \$ 4,650             |
| Compensated absences                            | 1,609  | 1,609               | 283                 | 3,501                |
| Current Portion of bonds payable                | 72,000   | -                   | -                   | 72,000               |
| Sales tax payable                               | -  | -                   | 11,228              | 11,228               |
| Total current liabilities                       | <u>78,259</u>                                      | <u>1,609</u>        | <u>11,511</u>       | <u>91,379</u>        |
| Noncurrent liabilities:                         |  |                     |                     |                      |
| Customer deposits payable                       | -  | -                   | 34,011              | 34,011               |
| Revenue bonds payable                           | 407,125  | -                   | -                   | 407,125              |
| Total noncurrent liabilities                    | <u>407,125</u>                                     | <u>-</u>            | <u>34,011</u>       | <u>441,136</u>       |
| Total liabilities                               | <u>485,384</u>                                     | <u>1,609</u>        | <u>45,522</u>       | <u>532,515</u>       |
| <b>NET ASSETS</b>                               |  |                     |                     |                      |
| Invested in capital assets, net of related debt | 1,703,262  | 901,216             | 2,124,282           | 4,728,760            |
| Restricted for:                                 |  |                     |                     |                      |
| Bond requirements                               | 111,500  | -                   | -                   | 111,500              |
| Emergency repairs                               | 40,084   | -                   | -                   | 40,084               |
| Designated for:                                 |  |                     |                     |                      |
| Improvements                                    | 200,000  | -                   | 1,500,000           | 1,700,000            |
| Unemployment claims                             | 10,000   | 10,000              | 10,000              | 30,000               |
| Power rate variation                            | -  | -                   | 100,000             | 100,000              |
| Unrestricted                                    | 246,697  | 446,291             | 4,386,017           | 5,079,005            |
| Total net assets                                | <u>\$ 2,311,543</u>                                | <u>\$ 1,357,507</u> | <u>\$ 8,120,299</u> | <u>\$ 11,789,349</u> |

**Fillmore City**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**

|  | Business-Type Activities - Enterprise Funds |                     |                     |                      |
|--|---|---------------------|---------------------|----------------------|
|  | Water                                       | Sewer               | Electric            | Total                |
| Operating revenues:                    |   |                     |                     |                      |
| Charges for sales and services         | \$ 404,067                                  | \$ 144,729          | \$ 2,304,050        | \$ 2,852,846         |
| Other income                           | 575   | 75                  | 16,506              | 17,156               |
| Total operating revenues               | <u>404,642</u>                              | <u>144,804</u>      | <u>2,320,556</u>    | <u>2,870,002</u>     |
| Operating expenses:                    |   |                     |                     |                      |
| Employee salaries                      | 36,072                                      | 36,072              | 17,878              | 90,022               |
| Employee benefits                      | 14,194                                      | 14,495              | 7,178               | 35,867               |
| Contractual services                   | 3,270                                       | 15,226              | 120,468             | 138,964              |
| Materials and supplies                 | 20,665                                      | 2,270               | 3,184               | 26,119               |
| Insurance                              | 8,613                                       | 3,947               | -                   | -                    |
| Utilities                              | 71,349                                      | -                   | -                   | -                    |
| Fuel and oil                           | 705   | -                   | -                   | -                    |
| Repairs and maintenance                | 1,366                                       | (19,535)            | 41,572              | 23,403               |
| Depreciation                           | 93,949                                      | 40,493              | 118,613             | 253,055              |
| Power purchases                        | -   | -                   | 1,347,405           | 1,347,405            |
| Miscellaneous                          | 4,366                                       | 846                 | 63,482              | 68,694               |
| Total operating expenses               | <u>254,549</u>                              | <u>93,814</u>       | <u>1,719,780</u>    | <u>1,983,529</u>     |
| Operating income                       | <u>150,093</u>                              | <u>50,990</u>       | <u>600,776</u>      | <u>886,473</u>       |
| Nonoperating revenues (expenses):      |   |                     |                     |                      |
| Interest revenue                       | 12,697                                      | 11,110              | 44,439              | 68,246               |
| Interest expense and fiscal charges    | (9,705)                                     | -                   | -                   | (9,705)              |
| Impact Fees                            | 7,810                                       | -                   | -                   | 7,810                |
| Total nonoperating revenues (expenses) | <u>10,802</u>                               | <u>11,110</u>       | <u>44,439</u>       | <u>66,351</u>        |
| Income (loss)                          | <u>160,895</u>                              | <u>62,100</u>       | <u>645,215</u>      | <u>952,824</u>       |
| Change in net assets                   | 160,895                                     | 62,100              | 645,215             | 952,824              |
| Total net assets - beginning           | 2,150,648                                   | 1,295,407           | 7,475,084           | 10,921,139           |
| Total net assets - ending              | <u>\$ 2,311,543</u>                         | <u>\$ 1,357,507</u> | <u>\$ 8,120,299</u> | <u>\$ 11,873,963</u> |

**Fillmore City**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**

|  | Business-Type Activities - Enterprise Funds |                   |                     |                     |
|--|---|-------------------|---------------------|---------------------|
|  | Water                                       | Sewer             | Electric            | Total               |
| <b>Cash Flows From Operating Activities</b>  |   |                   |                     |                     |
| Receipts from customers  | \$ 414,529                                  | \$ 145,083        | \$ 2,301,868        | \$ 2,861,480        |
| Other cash receipts  | 575   | 75                | 16,506              | 17,156              |
| Payments to suppliers  | (110,596)                                   | (2,611)           | (1,571,894)         | (1,685,101)         |
| Payments to employees  | (50,266)                                    | (50,567)          | (25,056)            | (125,889)           |
| Net cash provided (used) by operating activities   | <u>254,242</u>                              | <u>91,980</u>     | <u>721,424</u>      | <u>1,067,646</u>    |
| <b>Cash Flows From Capital and Related Financing Activities</b>                                |   |                   |                     |                     |
| Purchases of capital assets  | (9,487)                                     | (44,846)          | (178,765)           | (233,098)           |
| Principal paid on capital debt   | (73,875)                                    | -                 | -                   | (73,875)            |
| Interest paid on capital debt  | (9,705)                                     | -                 | -                   | (9,705)             |
| Impact fees collected  | 7,810                                       | -                 | -                   | 7,810               |
| Net cash provided (used) by capital and related financing activities                           | <u>(85,257)</u>                             | <u>(44,846)</u>   | <u>(178,765)</u>    | <u>(308,868)</u>    |
| <b>Cash Flows From Investing Activities</b>  |   |                   |                     |                     |
| Interest and dividends received  | 12,697                                      | 11,110            | 44,439              | 68,246              |
| Net cash provided (used) by investing activities   | <u>12,697</u>                               | <u>11,110</u>     | <u>44,439</u>       | <u>68,246</u>       |
| Net increase (decrease) in cash and cash equivalents   | 181,682                                     | 58,244            | 587,098             | 827,024             |
| Cash and cash equivalents, July 1  | 490,391                                     | 387,992           | 5,261,726           | 6,140,109           |
| Cash and cash equivalents, June 30   | <u>\$ 672,073</u>                           | <u>\$ 446,236</u> | <u>\$ 5,848,824</u> | <u>\$ 6,967,133</u> |
| <b>Reconciliation of operating income to net cash provided (used) by operating activities:</b> |   |                   |                     |                     |
| Operating income   | \$ 150,093                                  | \$ 50,990         | \$ 600,776          | \$ 801,859          |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: |   |                   |                     |                     |
| Depreciation expense   | 93,949                                      | 40,493            | 118,613             | 253,055             |
| (Increase) decrease in accounts receivable   | 10,462                                      | 354               | (2,182)             | 8,634               |
| Increase (decrease) in accrued liabilities   | (262)                                       | 143               | 4,217               | 4,098               |
| Total adjustments  | <u>104,149</u>                              | <u>40,990</u>     | <u>120,648</u>      | <u>265,787</u>      |
| Net cash provided (used) by operating activities   | <u>\$ 254,242</u>                           | <u>\$ 91,980</u>  | <u>\$ 721,424</u>   | <u>\$ 1,067,646</u> |

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended June 30, 2005, the City has implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

**1.A. FINANCIAL REPORTING ENTITY**

Fillmore City is a political subdivision of the State of Utah. The City is governed by a mayor and an elected board of five council members. The financial statements of Fillmore City include those of separately administered organizations that are controlled by or are dependent on the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters. Using these criteria no potential component units are included in the City's financial statements.

Information from the financial statements of Utah Associated Municipal Power Systems, a joint venture, are included in Note 4.C. The City's investment in this joint venture is accounted for by the equity method.

The accounting policies of Fillmore City, Utah, conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

The City's financial reporting entity comprises the following:

|                     |                  |
|---------------------|------------------|
| Primary Government: | City of Fillmore |
| Component Units:    | None             |

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**1.B. BASIS OF PRESENTATION**

***Government-wide Financial Statements:***

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. For the most part, the effect of inter-fund activity has been removed from these statements. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

***Fund Financial Statements:***

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

***Governmental Funds***

**General Fund**

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

**Capital Project Fund**

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to

**CITY OF FILLMORE, UTAH**  
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account for the acquisition of capital assets with transfers made from the General Fund.

**Permanent Fund**

The Permanent Fund accounts for assets held by the City pursuant to a trust agreement. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

**Proprietary Fund**

**Enterprise Fund**

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Water, Sewer, and Electric funds.

**Major and Nonmajor Funds**

The funds are further classified as major or non-major as follows:

| <u>Fund</u>                  | <u>Brief Description</u>   |
|------------------------------|--|
| Major:                       |  |
| General                      | See above for description.   |
| Special Revenue Funds:       |  |
| Redevelopment Agency         | Accounts for activity within the City's redevelopment agency.  |
|                              |  |
| Enterprise Funds:            |  |
| Water, Sewer and Electric    | Accounts for revenues and expenditures of water, sewer and electric utilities.   |
|                              |  |
| Nonmajor:                    |  |
| Capital Projects Fund:       |  |
| Capital Projects             | Accounts for revenues and expenditures on projects such as the centennial projects, airport runway and sidewalk improvements.  |
| Permanent Funds:             |  |
| Cemetery Perpetual Care Fund | This fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery. |
|                              |  |



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**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

***Measurement Focus***

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

***Basis of Accounting***

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures

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(including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**1.D. ASSETS, LIABILITIES, AND EQUITY**

***Cash and Investments***

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Investments of the promissory note trustee accounts are not considered cash equivalents.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.C. and 3.A.

***Interfund Receivables and Payables***

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.G. for details of interfund transactions, including receivables and payables at year-end.

***Receivables***

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines, and ambulance fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide

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financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

***Inventories***

Inventory is valued at the lower of cost or market value and the City uses the first-in, first-out (FIFO) flow assumption determined by the moving weighted average method. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

***Fixed Assets***

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

***Government-wide Statements***

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2004.

Prior to July 1, 2003, not all governmental funds' infrastructure assets were not capitalized. The City's streets and right of way assets are now capitalized and included as part of the governmental funds' infrastructure assets. The City defines a "significant improvement" to their roads as a chip and seal. The last chip and seal was placed on all roads in 2000, 2001, and 2002. Therefore, the last major road improvement would have occurred, on average, in 2001. Price trends from the FHWA are only available through 2001. Therefore, there is no need to further "deflate" the historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

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| Description                | Governmental<br>Activities<br>Estimated Lives | Business-Type<br>Activities<br>Estimated Lives |
|----------------------------|---|--|
| Buildings and Improvements | 45 years                                      | 45 years                                       |
| Machinery and Equipment    | 10 to 15 years                                | 10-15 years                                    |
| Vehicles                   | 6 years                                       | 6 years  |
| Infrastructure             | 65 years                                      | 65 years                                       |

***Fund Financial Statements***

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

***Restricted Assets***

Restricted assets consist of various cash balances that are restricted as to their use. Certain cash balances are restricted by provisions of the bond resolutions. These include the bond, and emergency repairs accounts in the enterprise funds. Customer deposits are also restricted in the enterprise funds. Amounts are held in the agency fund for future burial and cemetery costs. Class C Road revenue not spent is restricted in the general fund to be used for future roadwork and funds are held for the fire department to be used for future expenditures.

***Long-term Debt***

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable, accrued compensated absences, and a court-assessed judgment.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

***Compensated Absences***

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence

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liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

**Equity Classifications**

***Government-wide Statements***

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
  - b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
  - c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”
- Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note 3.H. for additional disclosures.

**1.E. REVENUES, EXPENDITURES, AND EXPENSES**

***Property Tax***

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Property taxes are collected by the Millard County Treasurer and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August each year. Taxes are due and payable on November 1, and are delinquent after November 30.

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Sales taxes are collected by the Utah State Tax Commission and are remitted to the City monthly.

***Operating Revenues and Expenses***

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

***Expenditures/Expenses***

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:

Current (further classified by function)  
Debt Service  
Capital Outlay

Proprietary Fund—By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

***Interfund Transfers***

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

**2.A. FUND ACCOUNTING REQUIREMENTS**

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

**Fund**

**Required By**

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Cemetery Perpetual Care Fund

State Law

**2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS**

The City maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the City funds. Deposits are not collateralized, nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the deposit of City funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Utah Money Management Act and adhering to the rules of the Utah Money Management Council.

The Utah Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Certain assets are restricted by provisions of the revenue bond resolutions. The resolutions also describe how these restricted assets may be deposited and invested. Restricted cash may only be deposited in state or national banks meeting certain minimum net worth requirements or invested in securities representing direct obligations of or obligations guaranteed by the U.S. government, agencies of the U.S. government, any state within the territorial United States of America, repurchase agreements or interest bearing time deposits with state or national banks meeting certain minimum net worth requirements, or certain other investments.

The City's investments are categorized as follows to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealers trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency, but not in the City's name. The City currently has no investments that are required to be categorized.

The Utah Public Treasurers' Investment Fund (PTIF) is an external deposit and investment pool wherein governmental entities are able to pool the moneys from several entities to improve investment efficiency and yield. These moneys are invested primarily in money market securities and contain no withdrawal restrictions. As such, the moneys

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invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds.

**2.C. REVENUE RESTRICTIONS**

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

| <u>Revenue Source</u>              | <u>Legal Restrictions of Use</u>    |
|------------------------------------|-------------------------------------|
| Sales Tax                          | See Note 1.E.                       |
| Water, Sewer, and Electric Revenue | Debt Service and Utility Operations |
| Cemetery Revenue                   | Perpetual Care                      |
| B & C Road Funds                   | Eligible B & C Roads                |
| Fire Revenue                       | Grant Monies                        |

For the year ended June 30, 2005, the City complied, in all material respects, with these revenue restrictions

**2.D. DEBT RESTRICTIONS AND COVENANTS**

***General Obligation Debt***

No debt in excess of total revenue for the current year shall be created by any city unless the proposition to create such debt shall have been submitted to a vote of qualified electors. Cities shall not contract for debt to an amount exceeding four percent of the fair market value of taxable property in their jurisdictions. For the year ended June 30, 2005, the City had no outstanding general obligation debt.

***Other Long-term Debt***

Cities may incur a larger indebtedness for the purpose of supplying such city water, sewer, or electricity when such public works are owned and controlled by the municipality. The additional indebtedness shall not exceed four percent for first and second class cities and eight percent for third class cities. For the year ended June 30, 2005, the City had \$479,125 of such indebtedness.

***Notes Payable***

The various loan agreements relating to the notes payable issuances contain some restrictions or covenants that are financial related. These include covenants such as debt service coverage requirement and required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2005.

| Requirement | Level of Compliance |
|-------------|---------------------|
|-------------|---------------------|

a. Note Payable Coverage:



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1. Net water operating revenues (excluding depreciation) must equal 1.25 times the annual debt service plus the unfunded portion of the Debt Service Reserve Requirement to be due and payable for the forthcoming year on the 1986 CIB Water Revenue Bond and the 1994 Parity Water Revenue Bond, Series A & Series B.

b. Reserve Account Requirement:

Various escrows are set up as reserves to make the annual debt payments. Minimum balances are required to be kept in each of the escrows.

**2.E. FUND EQUITY RESTRICTIONS**

***Deficit Prohibition***

Utah Code 10-6-116(4) indicates the only the "fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes." The remaining 5% must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund. (10-6-116(2))

The following had deficit equity balances at June 30, 2005:

None

**2.F. BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and the special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

**3.A. CASH AND INVESTMENTS**

***Deposits***

As of June 30, 2004 and 2005, deposits with Wells Fargo Bank totaled \$669,854 and \$812,874 respectively. The carrying amount on the City's books was \$405,010 and

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\$638,581 respectively. These deposits were covered by Federal Depository Insurance up to \$303,040 as of June 30, 2004 and up to \$303,131 as of June 30, 2005.

***Investments***

The City has investments with the Utah Public Treasurers' Fund (PTIF) which are not subject to categorization. The carrying amount and market value of the investments at June 30, 2004 and 2005 were \$6,739,759 and \$7,391,760 respectively.

The City's policies regarding deposits of cash are discussed in Note 1.E. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2005. The categories of credit risk are defined as follows:

Category 1—Insured by FDIC or collateralized with securities held by the City (or public trust) or by its agent in its name

Category 2—Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the City's name

Category 3—Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized with no written or approved collateral agreement.

The City currently has no investments that are required to be categorized. Investments not subject to categorization at June 30, 2005, were as follows:

|  |    |                  |
|--|----|------------------|
| Investments in Utah State Treasurers' Investment Fund      | \$ | 7,391,760        |
| Reconciliation to Government-wide Statement of Net Assets: |    |                  |
| Investments  | \$ | 7,391,760        |
| Cash on Hand   |    | 500              |
| Deposits   |    | 635,541          |
| Total  | \$ | <u>8,027,801</u> |
| Per Statement of Net Assets:                               |    |                  |
| Unrestricted Cash  | \$ | 7,204,131        |
| Restricted Cash  |    | 823,670          |
| Total  | \$ | <u>8,027,801</u> |

**3.B. RESTRICTED ASSETS**

**CITY OF FILLMORE, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

The restricted assets as of June 30, 2005, are as follows:

| Type of Restricted Asset         | Cash/Time Deposits | Investments | Accrued Int. | Total      |
|----------------------------------|--------------------|-------------|--------------|------------|
| <b>Business-Type Activities:</b> |                    |             |              |            |
| Customer Deposits                | \$ 34,011          | \$ -        | \$ -         | \$ 34,011  |
| Bond Requirements                | 111,500            |             |              | 111,500    |
| Emergency Repairs                | 40,084             |             |              | 40,084     |
| Total                            | 185,595            | -           | -            | 185,595    |
| <b>Governmental Activities:</b>  |                    |             |              |            |
| Class "C" Raods                  | 72,499             |             |              | 72,499     |
| Fire Department                  | 6,708              |             |              | 6,708      |
| Redevelopment Agency             | 188,512            |             |              | 188,512    |
| Endowments                       | 240,670            |             |              | 240,670    |
| Cemetery Operations              | 129,686            |             |              | 129,686    |
| Total                            | 638,075            | -           | -            | 638,075    |
| Grand Totals                     | \$ 823,670         | \$ -        | \$ -         | \$ 823,670 |

### 3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable from the water, sewer and electric utilities. Accounts receivable of the governmental activities consist of sales tax (59%), garbage utilities (33%), and returned checks (8%) receivables. Receivables detail at June 30, 2005, is as follows:

|                                 | Governmental Activities | Business-Type Activities | Total      |
|---------------------------------|-------------------------|--------------------------|------------|
| Accounts Receivable             | \$ 37,768               | \$ 257,196               | \$ 294,964 |
| Allowance for Doubtful Accounts |                         | (3,500)                  | (3,500)    |
| Net Accounts Receivable         | \$ 37,768               | \$ 253,696               | \$ 291,464 |

### 3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

**CITY OF FILLMORE, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

|   | Balance at<br>July 1, 2004 | Additions   | Disposals | Balance at<br>June 30, 2005 |
|---|----------------------------|-------------|-----------|-----------------------------|
| <b>Governmental Activities:</b>                 |                            |             |           |                             |
| Land  | \$ 61,201                  | \$ -        | \$ -      | \$ 61,201                   |
| Buildings                                       | 847,137                    |             |           | 847,137                     |
| Streets and Sidewalks                           | 723,216                    | 34,431      |           | 757,647                     |
| Improvements Other Bldg                         | 562,631                    | 122,142     |           | 684,773                     |
| Machinery & Equipment                           | 787,259                    | 103,895     |           | 891,154                     |
| Library Books                                   | 314,843                    | 50,216      |           | 365,059                     |
| Industrial Park                                 | -                          |             |           | -                           |
| Airport   | 708,023                    |             |           | 708,023                     |
| Infrastructure                                  | 7,071,329                  |             |           | 7,071,329                   |
| Land related Infrastructure                     | 89,556                     |             |           | 89,556                      |
| Totals at historical cost                       | 11,165,195                 | 310,684     | -         | 11,475,879                  |
| Less Accum. Depreciation                        |                            |             |           |                             |
| Buildings                                       | (578,238)                  | (29,014)    |           | (607,252)                   |
| Streets and Sidewalks                           | (52,718)                   | (57,829)    |           | (110,547)                   |
| Improvements Other Bldg                         | (321,394)                  | (25,445)    |           | (346,839)                   |
| Machinery & Equipment                           | (540,576)                  | (39,690)    |           | (580,266)                   |
| Library Books                                   | (314,843)                  | (14)        |           | (314,856)                   |
| Airport   | (440,034)                  | (35,029)    |           | (475,063)                   |
| Total Accum. Depreciation                       | (2,247,802)                | (187,021)   | -         | (2,434,823)                 |
| Governmental Activities<br>capital assets, net  | 8,917,393                  | 123,663     | -         | 9,041,056                   |
| <b>Business-type activities:</b>                |                            |             |           |                             |
| Land  | 133,089                    |             |           | 133,089                     |
| Buildings                                       | 51,052                     |             |           | 51,052                      |
| System  | 8,899,975                  | 178,764     |           | 9,078,739                   |
| Machinery & Equipment                           | 263,886                    | 54,333      |           | 318,219                     |
| Office Furn & Equipment                         | 97,052                     |             |           | 97,052                      |
| Totals at historical cost                       | 9,445,053                  | 233,098     | -         | 9,678,151                   |
| Less Accum. Depreciation                        |                            |             |           |                             |
| Buildings                                       | (44,899)                   | (2,051)     |           | (46,950)                    |
| System  | (3,974,739)                | (232,121)   |           | (4,206,860)                 |
| Machinery & Equipment                           | (220,006)                  | (12,483)    |           | (232,489)                   |
| Office Furn & Equipment                         | (84,416)                   | (6,399)     |           | (90,815)                    |
| Total Accum. Depreciation                       | (4,324,060)                | (253,054)   | -         | (4,577,114)                 |
| Business-type activities<br>capital assets, net | \$ 5,120,993               | \$ (19,956) | \$ -      | \$ 5,101,037                |

**CITY OF FILLMORE, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

Depreciation expense was charged to governmental activities as follows:

General government:

|                            |                  |
|----------------------------|------------------|
| General government         | \$ 37,001        |
| Public Safety              | 7,135            |
| Highways & Streets         | 84,697           |
| Parks & Recreation         | 58,188           |
| Total depreciation expense | <u>\$187,021</u> |

### 3.E. ACCOUNTS PAYABLE

Payables in the general fund and non-major governmental funds are composed of various payroll payables such as FICA Payable, Federal & State Withholdings and Workers Compensation Payable.

### 3.F. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

***Governmental Activities:***

As of June 30, 2005, the City had no governmental long-term debt.

***Business-type Activities:***

As of June 30, 2005, the long-term debt payable from proprietary fund resources consisted of the following:

***Water Revenue Bonds:***

|  |                   |
|--|-------------------|
| Water Revenue Bonds, Dated July 2, 1986  |                   |
| 0%, (original amount \$720,000)          | \$ 70,125         |
| Water Revenue Bonds Series A, Dated 1994 |                   |
| 3%, (Original amount \$368,000)          | 211,000           |
| Water Revenue Bonds Series B, Dated 1994 |                   |
| 1.5%, (Original amount \$368,000)        | 198,000           |
| Total Business-type debt                 | <u>\$ 479,125</u> |

**CITY OF FILLMORE, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

***Changes in Long-term Debt***

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

| Type of Debt               | Balance<br>July 1, 2004 | Additions   | Deductions         | Balance<br>June 30, 2005 |
|----------------------------|-------------------------|-------------|--------------------|--------------------------|
| Due Within One Year        | \$ 72,000               |             |                    | 72,000                   |
| Business-type Activities:  |                         |             |                    | -                        |
| Notes Payable              | 553,000                 |             | (73,875)           | 479,125                  |
| Total Enterprise Fund Debt | <u>\$ 553,000</u>       | <u>\$ -</u> | <u>\$ (73,875)</u> | <u>\$ 479,125</u>        |

The revenue bonds are payable only from the net revenues of the water and sewer system, as defined in the bond ordinances. The ordinances further provide that the City establish certain accounts and reserves for bond payment and that all revenues of the system are to be used for operation and maintenance costs of the systems, principal and interest on the bonds, and establishment of the defined debt repayment reserves.

***Annual Debt Service Requirements***

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2005, are as follows:

| Year Ending<br>June 30 | Business-type Activities<br>Notes Payable |                  |
|------------------------|---|------------------|
|                        | Principal                                 | Interest         |
| 2006                   | 72,000                                    | 9,300            |
| 2007                   | 72,125                                    | 8,490            |
| 2008                   | 39,000                                    | 7,635            |
| 2009                   | 39,000                                    | 6,750            |
| 2010                   | 41,000                                    | 5,865            |
| 2011-2015              | 216,000                                   | 15,060           |
| Total                  | <u>\$ 479,125</u>                         | <u>\$ 53,100</u> |

**3.G. INTERFUND TRANSACTIONS AND BALANCES**

***Operating Transfers***

|                  | Transfer Out | Transfer In |
|------------------|--------------|-------------|
| General Fund     | 40,000       |             |
| Capital Projects |              | 40,000      |

**CITY OF FILLMORE, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**3.H. FUND EQUITY**

**Restricted Fund Equity**

|   | Government<br>Activities | Business-Type<br>Activities | Totals        |
|---|--------------------------|-----------------------------|---------------|
| Net Assets                                      |                          |                             |               |
| Invested in Capital Assets, Net of Related Debt | \$ 9,041,056             | \$ 4,728,760                | \$ 13,769,816 |
| Restricted for:                                 |                          |                             |               |
| Class "C" Roads                                 | 72,499                   |                             | 72,499        |
| Cemetery  | 370,356                  |                             | 370,356       |
| Bond Requirements                               |                          | 111,500                     | 111,500       |
| Emergency & Repairs                             |                          | 40,084                      | 40,084        |
| Unrestricted (Deficit)                          | 646,756                  | 6,897,950                   | 7,544,706     |
| Total Net Assets                                | \$ 10,130,667            | \$ 11,778,294               | \$ 21,908,961 |

**NOTE 4. OTHER NOTES**

**4A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS**

The City participates in the following employee pension systems:

**Local Governmental - Cost Sharing Defined Benefits Pension Plans**

**Plan Description.** The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), and the Public Safety Retirement System (Public Safety System) for employers with (without) Social Security coverage, all of which are cost-sharing, multiple-employer defined benefit pensions plans administered by the Utah Retirement Systems (Systems). The Systems provide, retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the State Retirement Office (Office) for the administration of the Utah retirement Systems and Plans. Chapter 40 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

**CITY OF FILLMORE, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**Funding Policy.** The City is required to contribute a percentage of covered salary to the respective systems, 9.62%. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City contributions to the various systems for the years ending June 30, 2005, 2004, and 2003 were; for the Noncontributory System \$27,078, 22,019, and \$18,228. The contributions were equal to the required contributions for each year.

**401(k) Plan**

The employees of City also participate in a 401(k) deferred compensation plan. The amount of the employer contributions for the year ended June 30, 2005, 2004, and 2003, were \$7,242, \$10,952, and \$5,117, respectively.

**4.B. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased comprehensive general liability insurance through the Utah Local Governments Trust. The City pays premiums to the Trust for its general insurance coverage, automobile liability, and personal injury protection. The Trust is self-sustaining through member premiums. The City is subject to a minimal deductible for claims.

The City has elected to self-insure itself with regards to unemployment claims. To date no claims have been filed. The city has designated \$80,000 for such claims should they arise.

**4.C. ELECTRICAL POWER PURCHASE AGREEMENTS**

**Hunter II Power Project**

On June 30, 1981, Fillmore City entered into a power purchase contract with Utah Associated Municipal Power Systems (UAMPS). UAMPS is a consortium of 21 municipalities agreeing to purchase electrical power produced at the "Hunter II" power plant. In order to enable UAMPS to make the loan and to issue its bonds to pay the cost of acquiring and constructing the Hunter Project, it was necessary for UAMPS to have substantially similar binding contracts with the participants, to pledge the payments required to be made in accordance with such contracts with respect to the reacquisition costs to the payment of the loan and to pledge the other payments required to be made in accordance with such contracts as security for the payment of the bonds.

In the event of any default, the participant shall not be relieved of its liability for payment of the amounts in default, and UAMPS shall have the right to recover from the participant any amount in default. In enforcement of any such right of recovery, UAMPS may bring any suit, action, or proceeding in law as may be necessary or appropriate to enforce any



**CITY OF FILLMORE, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

covenant, agreement or obligation to make any payment for which provision is made in this Power Sales Contract against the participant and, from and after the effective date of the Agreement to Sell an Ownership Interest, UAMPS may, upon sixty days written notice to the participants, cease and discontinue providing all or any portion of the participant's power entitlement share.

The contract with UAMPS expires on the later of 1) the date the principal of, premium, if any, and interest on all of the UAMPS Hunter Project Revenue and Refunding Bonds have been paid, or 2) the final shut down of the Hunter Steam Electric Generating Unit No. 2 (Hunter II), or 3) June 1, 2032.

The contract entitles Fillmore City, Utah, to approximately 4.93 percent of the output generated by Hunter II, and as a participant in the project is obligated for 5.11 percent of the debt service on approximately \$36,045,000 in revenue bonds outstanding at June 30, 2005, (or \$1,841,900) issued to finance the acquisition of the Hunter II Project.

**San Juan Power Project**

In July, 1993, Fillmore City entered into a power sales contract with UAMPS which expires on the later of 1) the date the principal of, premium, if any, and interest on all of the UAMPS San Juan Power Project Revenue Bonds have been paid, or 2) the date of the final payment of all obligations under the Project Agreements, or 3) November 6, 2030. The contract entitles the City to approximately .86 percent of the output of Unit 4 of the San Juan Generating Station. Fillmore City as a participant in the UAMPS San Juan Project is obligated for 1.12 percent of the debt service on approximately \$30,366,213 in revenue bonds outstanding at June 30, 2005, (or \$340,102) issued to finance the acquisition of the project.

**Intermountain Power Project**

Fillmore City has entered into a Power Sales Contract (hereinafter referred to as the "Contract"), which expires in June of 2027, to purchase approximately 5 percent of the output of the Intermountain Power Project. The City is committed to a power layoff contract with certain Southern California utilities where they will take delivery of all of the City's entitlement should the City not require its entitlement. However, the City has the right to recall up to 100 percent of its entitlement upon meeting certain notice provisions. As long as any of the Intermountain Power Agency bonds are outstanding, the contract cannot be terminated or amended in a manner, which will impair or adversely affect the rights of any of the bondholders.

**CITY OF FILLMORE, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**4.D. REDEVELOPMENT AGENCY**

The State of Utah requires the following information of the Redevelopment Agency to be reported in the financial statements:

|  |           |
|--|-----------|
| Tax increment collected                  | \$291,079 |
| Outstanding bonds or loans of the agency | 150,988   |
| Amount expended for:                     |           |
| Site Improvements                        | 218,310   |
| Loan payments                            | 14,554    |

## **REQUIRED SUPPLEMENTARY INFORMATION**

## INFORMATION FOR INFRASTRUCTURE ASSETS USING THE MODIFIED APPROACH

As allowed by GASB 34, Fillmore City has adopted an alternative to reporting depreciation on roads (infrastructure assets) maintained by the Public Works Department. Under the modified approach, infrastructure assets are not depreciated and maintenance and preservation costs are expensed.

Infrastructure assets that are part of a network are not required to be depreciated as long as the following requirements are met:

- The assets will be managed using an asset management system
- Document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level as disclosed below

The asset management system will provide:

- An up-to-date inventory of eligible infrastructure assets
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale at least every three years
- Estimate yearly the annual amount of funds needed to maintain and preserve the eligible infrastructure assets at the condition level established
- The results of the three most recent complete condition assessments provide reasonable assurance that the eligible infrastructure assets are being preserved at the disclosed level
- All expenditures, except for additions and improvements, made for the eligible infrastructure assets will be expensed in the period incurred
- Additions and improvements to the eligible infrastructure assets will be capitalized, as they increase the capacity or efficiency of the asset rather than preserve the useful life of the asset

### Roads

Fillmore City will utilize the Pavement Management System to determine the condition of the city roads. The assessment is based on the Ride Index, which is a measurement of ride quality on a scale of 1-5, with 5 representing new or nearly new pavement.

| Category  | Range       | Description   |
|-----------|-------------|---|
| Good      | 3.55 – 4.34 | Pavements, which provide an adequate, ride, and exhibit few, if any, visible signs of distress.                           |
| Fair      | 2.75 – 3.54 | Surface defects in this category such as cracking, rutting, and raveling are affecting the ride.                          |
| Poor      | 1.85 – 2.74 | These roadways have deteriorated to such an extent that they are in need of resurfacing and the ride is noticeably rough. |
| Very Poor | 1.00 – 1.84 | Pavements in this category are severely deteriorated, and the ride quality must be improved.                              |

### Condition Level

Fillmore City's condition level is to maintain 50% of the roads with a rating of "fair" or better and no more than 15% with a rating of "poor-very poor." All city roads are chip sealed on a rotating basis, with 1/3 of the city streets done in a given year, and the rotation started every four to five years. The whole city had roads chip sealed between the years 2000, 2001, and 2002.

Complete assessments of the roads are performed on a fiscal year basis. The following chart shows the results of the pavement ratings for the last three years:

| Rating           | 2005 | 2004 | 2003 |
|------------------|------|------|------|
| Fair or Better   | 97.3 | 97.3 | 97.3 |
| Poor - Very Poor | 2.7  | 2.7  | 2.7  |
|                  |      |      |      |

The following table shows the estimated amounts needed to maintain and preserve the roads at or above the established condition levels addressed above, and the amounts actually spent for each of the last three fiscal years.

| Fiscal Year | Estimated Spending | Actual Spending |
|-------------|--------------------|-----------------|
| 2005        | 95,000.00          | 108,583.00      |
| 2004        | 85,000.00          | 67,500.00       |
| 2003        | 95,000.00          | 72,724.00       |
| 2002        | 125,000.00         | 113,505.00      |

## **SUPPLEMENTARY INFORMATION**

**Fillmore City**  
**Combining Balance Sheet for Nonmajor Funds**  
**June 30, 2005**

|   | Capital<br>Projects<br>Funds | Permanent<br>Funds<br>Cemetery<br>Perpetual<br>Care | Total<br>Non-major<br>Governmental<br>Funds |
|---|------------------------------|---|---|
| <b>ASSETS</b>                             |                              |   |   |
| Cash and Cash Equivalents                 | \$ 345,160                   | \$ -  | \$ 345,160                                  |
| Restricted Assets:                        |                              |   |   |
| Cash and Cash Equivalents                 |                              | 370,356   | 370,356                                     |
| <b>Total assets</b>                       | <u>345,160</u>               | <u>370,356</u>                                      | <u>715,516</u>                              |
| <b>LIABILITIES AND FUND BALANCES</b>      |                              |   |   |
| Liabilities:                              |                              |   |   |
| Accounts Payable                          | \$ -                         | \$ -  | \$ -  |
| <b>Total liabilities</b>                  | <u>-</u>                     | <u>-</u>  | <u>-</u>                                    |
| Fund balances:                            |                              |   |   |
| Designated for:                           |                              |   |   |
| Capital Projects                          | 345,160                      | -   | 345,160                                     |
| Endowments                                | -                            | 240,670   | 240,670                                     |
| Cemetery Operations                       | -                            | 129,686   | 129,686                                     |
| <b>Total fund balances</b>                | <u>345,160</u>               | <u>370,356</u>                                      | <u>715,516</u>                              |
| <b>Total liabilities and fund balance</b> | <u>\$ 345,160</u>            | <u>\$ 370,356</u>                                   | <u>\$ 715,516</u>                           |

**Fillmore City**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-major Governmental Funds**  
**For the Year Ended June 30, 2005**

|  | Capital<br>Projects<br>Funds | Permanent<br>Funds<br>Cemetery<br>Perpetual<br>Care | Total<br>Non-major<br>Governmental<br>Funds |
|--|------------------------------|---|---|
| <b>REVENUES:</b>   |                              |   |   |
| Charges for services   | \$ -                         | \$ 7,025  | \$ 7,025                                    |
| Interest income  | -                            | 13,412  | 13,412                                      |
| Total  | -                            | 20,437  | 20,437                                      |
| <b>EXPENDITURES:</b>   |                              |   |   |
| Capital outlay   | 38,638                       | -   | 38,638                                      |
| Total  | 38,638                       | -   | 38,638                                      |
| Excess of revenues over<br>(under) expenditures                                  | (38,638)                     | 20,437  | (18,201)                                    |
| Other financing sources (uses):  |                              |   |   |
| Transfers in   | 40,000                       | -   | 40,000                                      |
| Total other fin. sources (uses)  | 40,000                       | -   | 40,000                                      |
| Excess of revenues and other sources<br>over (under) expenditures and other uses | 1,362                        | 20,437  | 21,799                                      |
| Fund Balances - Beginning  | 343,798                      | 349,919   | 693,717                                     |
| Fund Balances - Ending   | \$ 345,160                   | \$ 370,356  | \$ 715,516                                  |



**CITY OF FILLMORE  
MANAGEMENT LETTER  
INDEPENDENT AUDITORS' REPORT IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*  
INDEPENDENT AUDITORS' REPORT  
ON LEGAL COMPLIANCE  
JUNE 30, 2005**

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***GOVERNMENT AUDITING STANDARDS REPORT***



**LARSON & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

July 29, 2005

The Honorable Mayor and  
Members of the City Council  
City of Fillmore, Utah

Mayor and Council Members:

We have audited the accompanying basic financial statements of the City of Fillmore, Utah (herein referred to as the "City"), as of and for the year ended June 30, 2005, and have issued our report thereon dated July 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in the management letter.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over

financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in the management letter.

This report is intended for the information of the Mayor and City Council, management, others within the organization, and various federal and state funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.

Larson & Peterson  
Certified Public Accountants

## **STATE COMPLIANCE REPORT**



**LARSON & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

July 29, 2005

The Honorable Mayor and  
Members of the City Council  
City of Fillmore, Utah

Mayor and Council Members:

We have audited the basic financial statements of the City of Fillmore, Utah, as of and for the year ended June 30, 2005, and have issued our report thereon dated July 29, 2005. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or un-allowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

B&C Road Funds (Department of Transportation)  
Liquor Law Enforcement

Our audit also included test work on the City of Fillmore's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Guide, including:

Public Debt  
Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Truth in Taxation and Property Tax Limitations  
Other General Compliance Issues  
Uniform Building Code Standards  
Impact Fees and Other Development Fees  
Asset Forfeiture

The management of the City of Fillmore, Utah, is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred.

An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in a separate management letter dated July 30, 2005. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of Fillmore, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or un-allowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Larson & Peterson  
Certified Public Accountants



## **MANAGEMENT LETTER**

## **MANAGEMENT LETTER CURRENT YEAR FINDINGS**

### **INTERNAL CONTROL FINDINGS**

#### ***FINDING - LACK OF SEPARATION OF DUTIES***

Because the same people who handle cash receipts also perform various bookkeeping functions and utility billing, there is no system of "independent checking" as would exist in a City with more accounting personnel. For example, it is usually best to assign the responsibility of reconciling the bank account to someone who is not involved in preparing checks or handling cash receipts. This person will generally detect any errors in checks or deposits and make corrections.

#### ***RECOMMENDATION***

Because the level of accounting in the City of Fillmore, Utah, does not justify a staff large enough to totally segregate duties, it is possible that errors may not be detected. Accordingly, the Mayor, Recorder, Treasurer, and all Council Members should closely review all financial documents and promptly investigate any unusual matters.

#### ***CLIENT RESPONSE***

Mayor, Recorder, Treasurer, and all Council Members will review all financial matters.

**MANAGEMENT LETTER  
CURRENT YEAR FINDINGS (CONCLUDED)**

**STATE COMPLIANCE FINDINGS**

***FINDING – TREASURERS BOND***

Treasurers bond is insufficient. Currently the bond is \$270,000 and it should be at the least \$275,086. State Law requires the bond amount to be at least 6% of the cities gross budgeted revenue for the prior year.

***RECOMMENDATION***

We recommend that the city review their prior year budgeted revenue and adjust the Treasurers Bond up or down to match the amount required by state compliance.

***CLIENT RESPONSE***

The city has already increased the bond amount to \$280,000

**MANAGEMENT LETTER**  
**STATUS OF PRIOR YEAR FINDINGS**

**INTERNAL CONTROL FINDINGS**

***FINDING - LACK OF SEPARATION OF DUTIES***

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**STATUS OF PRIOR YEAR FINDINGS**

See finding in current year audit.

***FINDING – WATER CUSTOMERS OVERCHARGED***

Water customers who used more than the base amount for the 3 months ended June 30, 2005 were charged \$2.50 too much. The 3 customers whose meters are read monthly were charged \$2.50 less than they should have been. This occurred only in June as that is when the new water rates were implemented.

***RECOMMENDATION***

We recommend that utility billing calculations (Caselle) be checked periodically as well as each time rates are changed.

**STATUS OF PRIOR YEAR FINDINGS**

No problems noted in current audit.

**MANAGEMENT LETTER  
PRIOR YEAR FINDINGS (CONCLUDED)**

**STATE COMPLIANCE FINDINGS**

***FINDING - DEFICIT FUND BALANCE***

A deficit equity balance existed in the Redevelopment Agency Fund. State law prohibits deficit equity balances.

***RECOMMENDATION***

The City should also closely monitor the expenditures in this fund for the current year to ensure that the fund's deficit equity balance is reversed. One possible solution is to make transfers from the general fund for projects expected.

**STATUS OF PRIOR YEAR FINDINGS**

No problems noted in current audit.